

**SGEDRA**

**by**

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## **Abstract**

The report analyzes the feasibility of entry into the flash memory and promotional product industry through an import venture. The analysis begins with an external analysis of the industries based on Porter's Five Force Analysis. The external analysis leads to the identification of the Key Success Factors within the industries and subsequently the competitive analysis. After the competitive analysis, the opportunities and threats are identified. A strategic proposal, which recognizes the management and organizational capabilities and resources needed for the venture to be successful, is made. An internal analysis evaluates the current capabilities and the missing capabilities necessary to implement the business venture. Finally a recommendation is put forth on whether to pursue or drop the venture based on the capabilities of the start up to seize opportunities and mitigate threats while fulfilling the internal capabilities necessary to successfully penetrate the market.

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## Glossary

Customer Relationship management	CRM stands for Customer Relationship Management which consists of tracking, organizing and processing current and prospect customers
Flash Drive/ Flash memory/USB flash drive	Flash drive, flash memory, and USB flash drive refer to a non-volatile computer memory for storage and transfer of data between computer and digital products. It is a capability of being programmed and erase.
GB/MB/KB Capacity	<p>GB/MB/KB are multiple of digital information storage in multiple of byte.</p> <p>GB stands for gigabyte referring to 1,000,000,000 bytes.</p> <p>MB stands for megabyte referring to 1,000,000 bytes.</p> <p>KB stands for kilobyte referring to 1,000 bytes.</p>
Hard drive (HDD)	HDD are storage device that uses rotating platters and magnetic surface typically used on computers
KSF	KSF stands for Key Success Factor. KSFs are the requirement necessary to gain a competitive advantage in that particular market
microSD	MicroSD is a type of memory card used in digital devices like cellular phones, cameras and game consoles.
NAND-based memory	NAND-based memory is a type of flash memory that have fast erase and write times. NAND-based memory are more portable and do have rand-access and are used for mass-storage devices like memory cards and digital electronics
NOR-based memory	NOR-based memory are a type of flash memory that requires longer erase and write times and allows random access to memory useful for computers

Perfect Competition	In a perfect competition economic profit will not be attainable because margin cost will equal marginal revenue.
PPAI	PPAI stands for Promotional Product Association International
Promotional Products	Promotional products are items given away free to clients and target market of business used to advertising and marketing purposes
USB	USB stands for Universal Serial Bus (USB). USB is the standard connection used by computers for connection with digital devices

# **1: Introduction**

This paper presents a business plan to import flash memory to compete in the flash drive market in the wholesale promotional product and retail sector. Flash drive, flash memory, and USB flash drive all refer to a non-volatile computer memory device for storage and transfer of data between computers and digital products. The devices are capable of being programmed and erased. Advancements in technology have made, what were previously expensive, portable flash storage devices a consumer product. Storage capacity for USB flash drives has increased over 16,000 times since 2000. The business venture under consideration intends to capture the market for portable and versatile transfer of data in the retail and promotional product industry by implementing a differentiation strategy.

## **1.1 Scope of the Report**

This business plan will be the initial framework to determine whether to pursue a business venture to establish an import company for flash memory to compete with brand name flash drives and in the wholesale market for promotional products. The potential target markets to be pursued are corporations, through wholesale channels, and the retail consumers. The report emphasizes the threats that will be encountered and the potential competitive advantage entrants can establish in order to compete successfully with incumbents in the flash memory market. The Internet has opened doorways for

companies to source products from all over the world, which introduces new opportunities and threats to industries. The report looks at the short-term strategies necessary to position the start up company competitively but does not take into consideration the long-term ramifications due to increased variability and the extensive assumptions necessary to complete a long-term analysis.

## **1.2 Products, Industry Prospects, Size, Growth**

The following section will provide background information and prospects for the portable flash memory and promotional product industry. First, the history of each industry is summarized briefly. Next, the current market size and growth prospects are identified.

### **1.2.1 Portable Flash Memory**

Dr. Fujio Mauoka, who at the time was working for Toshiba, first invented portable flash memory in 1984 (TutorialWeb, 2009). Flash memories are data storage devices that have rewritable capabilities. In 1988, Intel invented and introduced the first commercial NOR type flash memory. NOR-based memory has long erase and write times and an endurance rate of 10,000 to 1,000,000 erase cycles. An advantage of NOR-based memory is its ability to allow random access to any location for frequent updates. This characteristic makes NOR-based memory suitable for use in conjunction with computer software. In 1989, Samsung and Toshiba introduced the NAND-base flash memory that is cheaper with faster erase and write times and ten times the life cycle of NOR based memory. Due to the sequential access necessary for the input/output interface of the

NAND flash memory, it was suitable for PC cards, portable consumer electronics and memory cards but was less valuable as computer memory.

### **1.2.2 Promotional Products**

Promotional products have been used for various advertising purposes for a long time, and can be traced back to 1789 when they were first widely employed in the United States (WomPro, 2008). Commemorative buttons were first issued during George Washington's election campaign and subsequently the industry grew to include products like calendars, bags, t-shirts, key chains, stickers, pens and mugs. In 1904, 12 promotional product manufacturers formed an industry trade association, which in time became known as the Promotional Product Association International (PPAI, 2009). Promotional products were hard hit during the Great Depression but quickly recovered and achieved record sales of \$124 million in 1947 (TutorialWeb, 2009). During an economic catastrophe, it is often strategically advantageous to keep advertising expenditure steady or even increase spending at a time when competitors are minimizing expenditures and reducing advertising spending. During a downturn, a company can benefit from favourable prices and gain greater awareness due to the reduced advertising that, in better economic times, usually floods the market. The reduced cost of advertising and greater exposure that a company can achieve during a downturn will help facilitate greater future returns and expansion of market share. The current financial crisis may prove to be both advantageous and disruptive to the promotional product industry as clients may either take advantage of the greater exposure by increasing the use of promotional products or decrease advertising spending. If history was to repeat itself, we

would see a slump in the promotional product industry during the initial years of the financial crisis and significant growth as the economy begins to recover. Promotional products have the ability to promote goodwill and enhance the company's image (PPAI, 2009). They can also help reinforce advertising of current products and services.

Promotional products can also be used to encourage employees and as a reward for exceptional employee performance (PPIBlog, 2006). Promotional products can facilitate sales leads. Higher value promotional products usually generate more leads than lower value promotional products. Promotional items are also able help generate higher traffic during trade shows, which also increases the exposure of the company and its products (PPIBlog, 2006).

### **1.2.3 Industry Prospects, Size, Growth**

Both the promotional product and flash memory industry have seen tremendous growth and the current trends are likely to continue. The flash memory industry is expected to surpass USD \$20 billion by 2010 (Vnunet, 2006). It is estimated that the NAND flash memory chip market, driven by the market demand for audio digital players like Apple's iPod, grew from a USD \$1.1 billion in 1999 to USD \$10.6 billion in 2005. The demands for flash memory derive from a range of consumer electronics like digital cameras, cellular phones, digital photo frames, computers and video recorders. Memory cards have dropped in price from hundreds of dollars to below ten dollars. As Figure 3-2 suggests, the promotional product industry is unsaturated and is on a growth trend. In 2007, the promotional products industry was estimated to be worth USD \$19.4 billion. The growth in both industries indicates optimistic prospects.

Figure 1-1 is a product life cycle chart. The chart suggests that both industries are in the growth stage, which stresses differentiation. In addition, the red and blue lines on the chart identify sales revenue and industry profitability. During the growth stage, sales revenue and profitability increase at a rapid rate even though the numbers of competitors are increasing. Based on the phase of the life cycle the industry is currently in, the chart suggests entry into both markets is likely to be profitable. Incumbents would likely be able to achieve high returns and increase market share while entrants maybe able to target the unsaturated portion of the market and successfully penetrate the industry.

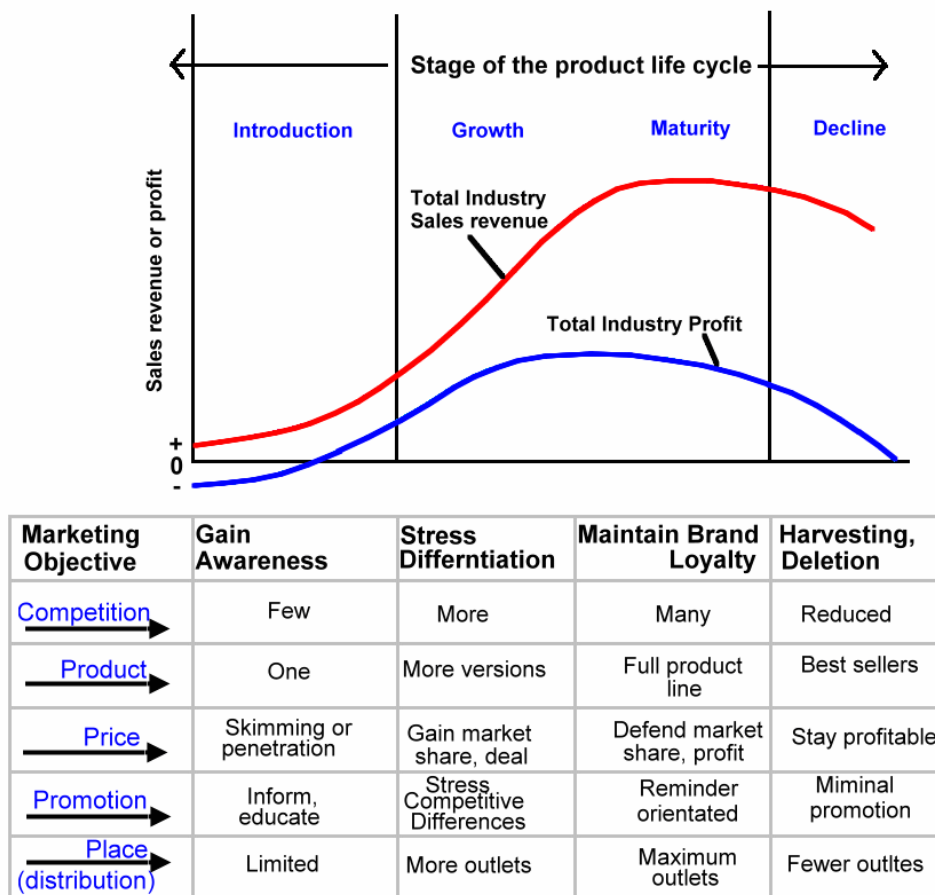


Figure 1-1 Stage of the Product Life Cycle

### **1.3 Company Proposal**

The proposed company, Sgedra, is an import reseller of flash memory and other portable memory devices. Sgedra is made up of two abbreviations meaning “arrow star dragon”. “Sge” is the abbreviation for the Arrow Star constellation and “dra” is the abbreviation for dragon. Sgedra will penetrate both the promotional product industry and flash memory market with a differentiation strategy. The advantage Sgedra will possess in the flash memory industry is the versatility of interchangeable memory cards, which increases portability and convenience, and eliminates the need to buy more than one flash drive. Sgedra will approach the promotional product industry with a unique flash memory product that has the potential of containing preloaded data. As well, the client’s logo can be silkscreened onto the device. The company will be mainly E-commerce based to reduce costs and will transit to other products as it gains momentum. The company will attempt to acquire exclusive distribution rights from EagleTec, one of the major suppliers, to protect their unique product and their differentiation strategy for North America. To increase the methods for purchasing Sgedra products and increase exposure of the company, flash memory will be sold online through a dedicated website and through retailers like FutureShop and BestBuy. Wholesale promotional products will be sold through direct contact and the website for these products will be primarily informational, to inform corporations of new available products.

### **1.4 The Purpose of the Report**

The purpose of this report is to look at the feasibility of entering the flash memory market and the promotional product industry. The report first analyzes the current flash



memory industry and examines the emerging trends. Due to the similarities between the portable flash memory and promotional product industry, the report will focus on the retail side and give some attention to the negligible differences in the wholesale sector. The attractiveness of the industry will be assessed based on

Industry Analysis, Porter's Five-Force Analysis

Key Success Factors for the Industries

Competitor Analysis

Assessment of the Competitor's Strengths and Weaknesses

Internal Analysis

Porter's Five Force Analysis is undertaken to identify the competitive forces in the industry analysis for each of the industries (Bougeois, Duhaime & Stimpert, 1996). Competitive advantages are determined for direct competitors and Key Success Factors for the industries are identified. As a consequence, the opportunities and threats are brought to light, and these will be used to derive the strategic proposal for the company. Next, the analysis examines the minor differences between the promotional product industry and the retail flash memory industry. The analysis will examine the differences between the two industries by following a similar procedures, using a five force analysis, KSF, competitive analysis and finally investigating the opportunities and threats. The strategic proposal for the company will take into consideration the necessary management capabilities, resources and organizational support required for a successful start up. Finally, the internal capabilities of Sgedra are evaluated to identify the limitations and changes that need to be made for the venture to be successful. An

objective evaluation of the requirements is undertaken to determine whether the business venture is viable.

## **2: Industry Analysis**

### **2.1.1 Introduction**

The industry analysis will begin with Porter's Five Forces to determine the intensity of competition and the overall attractiveness of the retail industry (Bourgeois et al, 1996, p. 87). The Key Success Factors are derived from the analysis, which will reveal the critical issues that are the basis of competition. Next, a competitive analysis is carried out to evaluate Sgedra's ability to compete against direct competitors based on the KSFs. The unique properties of wholesale will be described subsequently, and the different impacts of the forces, the KSFs, competitive analysis, opportunities and threats will be considered.

### **2.1.2 Porters Five Forces**

It is critical to analyze the industry to determine the level of intensity of market forces. Michael Porter's Five Force is used to gauge the competitive environment and the attractiveness of the market by thoroughly determining the factors as listed:

New Entrants

Suppliers

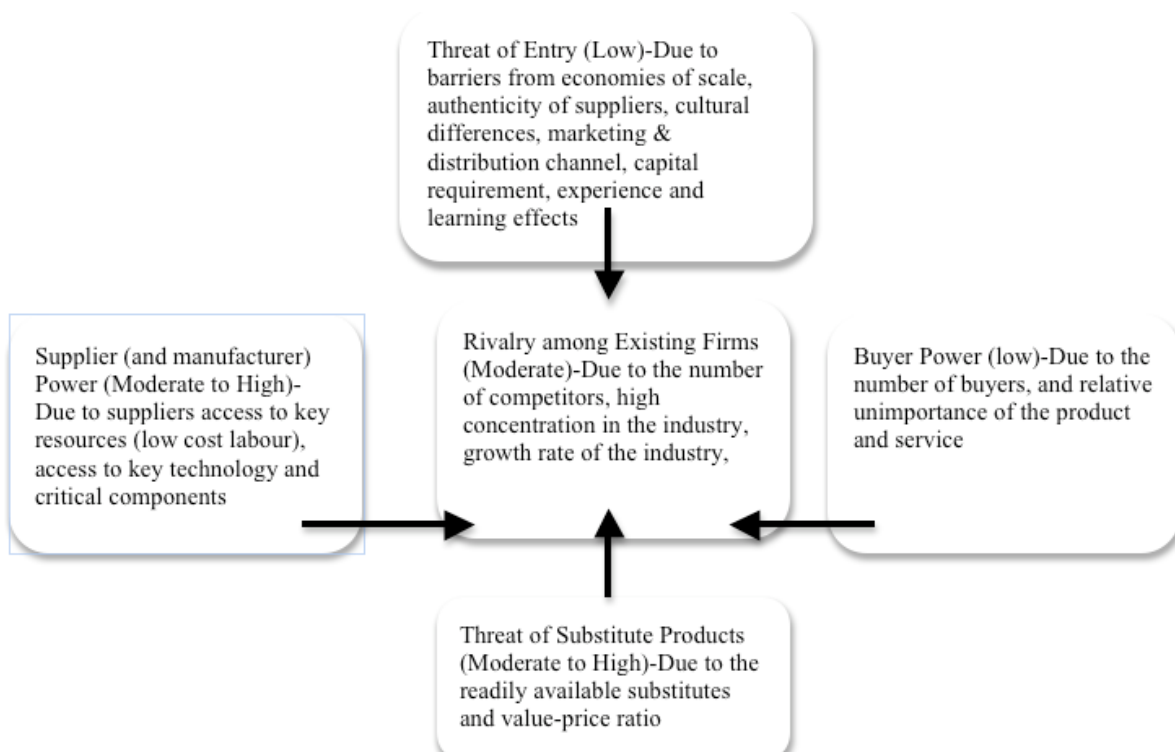
Buyer

Industry Competitors

## Substitutes

The framework of the model is based on the five forces that influence the industry in which the firm operates. The power of each force will have a distinct impact on a company operating within an industry and will influence the strategy that will be used to gain a competitive edge. Figure 2-1 provides an overview of the forces and the strength of each force for promotional products and the relevant retail industry.

*Figure 2-1 Porter's Five Forces Model of Competition*



### **2.1.3 Threats of Entry in Retail (Low)**

Porter model indicates that the attractiveness of an industry is dependent on the ability of entrants to threaten incumbents and increase competition, which effectively decreases profitability. There is a low threat of entry in the retail sector of the flash memory industry. The threats from entrants are weak if there are high barriers to entry and incumbents are not making substantial profits. A cost barrier is erected against entrants if incumbents enjoy economies of scale, learning effects and access to key technology and resources. Entrants will also face incumbents that enjoy brand loyalty, and the network effect of being in the industry. Entrants may also encounter problems sourcing and cultural barriers while trying to build relationships with suppliers. Government regulations for imports maybe problematic, increasing the cost to entrants who already have low margins.

#### **2.1.3.1 Economies of Scales**

Incumbents in the flash memory industry are able to reduce their costs by manufacturing in volumes large enough to achieve the minimum efficient scale. During initial operations, entrants may not be able to take full advantage of their facilities or may not be able to purchase parts large enough quantities to take advantage of volume discount. Incumbents like Sandisk, Kingston, and Samsung have a range of products, like solid-state drives, flash memory and mobile memory cards, that allow them to utilize horizontal integration to reduce costs. The ability to sustain economies of scales is a KSF necessary to compete in the industry and maintain a competitive advantage. In the

conclusion, we will discuss possibility that the ability to achieve economies of scales may counteract the ability to overcome the next barrier that is discussed, product differentiation.

#### **2.1.3.2 Product Differentiation**

Current incumbents have minor differentiation among their products in transfer speeds, ergonomics, brands, and preloaded applications. There is significant room for entrants to enter the market successfully and gain exposure and market share through product differentiation. A well- recognized designer flash memory producer, Mimobot, is able to sustain a profitable strategy in the flash memory industry by creating flash memory covers that are based on popular items in the entertainment industry and gaming sector. A company called Super Talent builds ultra slim USB drives and even some that are waterproof. Other differentiating factors may include enhanced security features, like flash drives with biometric finger print recognition. Product differentiation is a KSF in a growing industry where it is necessary to distinguish one's product amongst the mounting competitors.

#### **2.1.3.3 Globalization and Key Resources**

Asia controls a key resource in manufacturing flash memory: low cost labour. Approximately 15 years ago, manufacturers in China had to sell through Hong Kong traders who in turn would sell to importers (PPIBlog, 2006). As government regulations and trade barriers have broken down, factories in China are now able to sell internationally directly to importers. The Internet has brought suppliers from the Far East

to the doorsteps of distributors worldwide. Thus, the demand for suppliers in Asia has increased substantially as buyers look to cut their costs by sourcing directly from the manufacturers. Distributors looking to purchase smaller volumes will have little bargaining power as suppliers in Asia have consistent demand for their products and have attracted larger buyers. The increase in demand through the global market has provided suppliers with increased bargaining power.

#### **2.1.3.4 Authentic Suppliers**

The Internet has created an opportunity to contact overseas manufacturers quickly and easily, but it is not without its risks. Sourcing sites for international suppliers, like Alibaba and Global Sources, has open the door to millions of scammers that are able to put up a website, forge product reviews and display pictures of their products and their manufacturing plant to con the unwary buyer. The products, prices, payment terms, websites and shipping procedures are nearly identical for fake and authentic suppliers. A barrier to entry may be erected because of the inability to distinguish authentic suppliers from the myriad of illegitimate imitators. Hong Kong Boost Industry, Shenzhen City Sangxing Technology, and HK-Start are a few of the fraudulent companies that can be found on Alibaba and Global Sources.

#### **2.1.3.5 Cultural Barriers**

Entrants will need to turn to sources in Asia for affordable portable memory. North American entrants are likely to face cultural barriers while establishing relations with suppliers as the vast majority of manufacturing is done in Asia. “Guan xi,” the

Chinese term for relationship, is very important in Asia and lack of familiarity will likely extract a price from foreigners who are culturally unaware. A relationship must be built before trust is bestowed and before a business relationship can effectively begin. “Guan Xi” entails the exchange of favours and gifts to cultivate a personal relationship and network for mutual benefit. The relationship is based on shared beliefs and experiences, like similar heritage and dialect, and creates a kinship that emphasizes obligations and indebtedness between the two parties.

#### **2.1.3.6 Marketing and Distribution Channels**

Incumbents will have secured distribution channels while entrants will have to fight to displace their competitors or create new distribution channels. Entrants will need to compete for online distributors and brick-and-mortar stores, like FutureShop and BestBuy. Entrants will have to present retail distributors with incentives like higher margins for them to incur switching costs to displace current competitors. Entrants may be able to present their products in a way that convinces retailers that the product will be popular and increase the profitability of the store. Once again, the KSF is product differentiation yielding the possibility of distinguishing the product from that of current competitors and opening opportunities for successful entry.

#### **2.1.3.7 Brand Identity**

Many incumbents will have built brand loyalty and recognition for their company, allowing them to penetrate the new markets much easier than new entrants. Customers may prefer to pay more for brand name portable flash drive they recognize than buy one



that is cheaper and risk loss in data, speed, and stability. Entrants also face much higher marketing costs as they try to gain exposure, while incumbents can rely on past marketing campaigns and brand recognition. Incumbents offering a variety of products will attain economies of scale to efficiently market and distribute their product, while entrants competing with only one product line will have not have these efficiencies. Brand recognition is a KSF that entitles those who enjoy it greater credibility, which in turn results in higher margins and greater market share.

#### **2.1.3.8 Government Regulations**

Due to the limited government regulations in Asia, precautions are necessary to filter credible suppliers from the vast majority of fraudulent suppliers and avoid the immense black market. Entrants will need to spend time and money to test the products, and locate a reliable manufacturing company to ensure orders are filled according to specifications. In addition, political instability in Asia may cause delays in production. The lack of intellectual property rights and patents protection is also problematic as new products can be easily reversed engineered and produced by a competitor. An import duty of 4% and a Goods and Services Tax (GST) at 5% are payable on most goods, which will cut into the businesses with low margins. Incumbents will have an advantage as their supply chain is effectively structured, while entrants will struggle to adapt to the regulations and seek credible suppliers.

#### **2.1.3.9 “Behavioural” entry Barrier**

Incumbent retaliation will be a barrier to entrants planning to take large market shares and undercut the price structure of current competitors. Since suppliers for flash memory will be similar to each other, unless the competitor purchases in large enough volumes to achieve significant discounts, the relative prices of the products will be unchanged. Incumbents may be able to retaliate by adopting the latest flash memory device that has higher transfer rates and stability, after the entrant has adopted the current models.

#### **2.1.3.10 Summary**

Entrants will encounter a number of barriers including incumbent retaliation, brand identity, economies of scale, and established distribution channels. The KSFs that have been identified and are essential to compete in the industry are economies of scale and product differentiation. By attaining economies of scale, entrants will be able to compete with the low per unit costs enjoyed by incumbents. During the initial stages of operations, economies of scale will unlikely to be achieved, increasing the costs for entrants. Another factor that may deter entry is the likelihood of sourcing from fraudulent suppliers over the Internet. Product differentiation will allow competitors within the growing market to distinguish their product and rise up above competitors. The increased cost of research and development, necessary to manufacture differentiated products, in effect works against a low cost strategy and the ability to attain economies of scale. As products become widely used and become a commodity good, the initial costs of research and develop have been recouped or incurred by the developer and the ability to mass

product the item will be feasible at cost low enough to attain economies of scale. The goal will be to control the cost of research and development required to create differentiated products while manufacturing in large enough volumes to attain economies of scale as quickly as possible. Although Brand recognition is not essential, it is a KSF because it bestows a competitive advantage on those who possess it because it speaks to their products' greater reliability and perceived performance capabilities.

#### **2.1.4 Power of Supplier (and Manufacturer) in Retail (Moderate-High)**

Another factor, identified by Porter, that influences the attractiveness of an industry is the power of supplier. There is a moderate to high level of supplier power in the flash memory retail industry. Supplier power increases the competitive nature of the industry and reduces the profitability of the market. Supplier power is achieved through access to key resources, technologies and component critical to the buyer. Supplier power will also be dependent upon the number of suppliers. The greater the number of suppliers, the lower the bargaining power. Suppliers may know there are limited numbers of suppliers for a particular component and that switching costs are high. This would indicate high supplier power.

##### **2.1.4.1 Access to Key Technology and Critical Components**

NAND technology architecture is used mainly for hard disks, memory cards and solid-state drives. Due to the high demand for consumer products that use these components, the demand for flash memory is high. Currently, desktop computers, laptops, netbooks, digital audio players (ipods), cellular phones, digital cameras, digital

camera frames and many other consumer products use products from NAND technology suppliers. NAND technology has created an entire market of smaller, portable flash memory, allowing manufacturers to create new innovative products in a smaller form factor. NAND technology manufacturers have significant bargaining power due to the market demand for their critical components and the proprietary technology used in manufacturing. The ability to access key manufacturers to acquire technology and critical components are a KSF in the flash memory industry.

#### **2.1.4.2 Norms in Asia**

Although it is the norm in North America to provide payment terms of net 30, suppliers in Asia require payment up front and often by Western Union or bank transfers. These business practices give suppliers greater bargaining power and could possibly reduce the liquidity of buyers.

#### **2.1.4.3 Summary**

The analysis of the sources of supplier power indicates that manufacturers have moderate power. The high demand for NAND technology products and the direct access to the global market has increased the bargaining power of Asian manufacturers. Although there is a low switching cost, the access to low cost labour adds to the manufacturers' bargaining power. The supplier relationship was identified as a barrier because of the unique relationship or "guan xi" that must be built to do business effectively. Suppliers will have greater power as large numbers of clients are looking to build relationships with them. Distributors sourcing small volumes will have trouble

bargaining with Asian manufacturers because they are competing in a large market with high volume demands. Another KSF is the ability to build good working relationships with manufacturers that have key access to technology and critical components. Without this KSF, companies will lose their access to newer technology, which will threaten their competitive position in the industry.

#### **2.1.5 Buyer Power in Retail (Low)**

Similarly, as a powerful supplier can extract profits from an industry, Porter identifies buyer power as a force that can reduce the attractiveness of an industry. There is a weak level of buyer power in the retail portable flash memory industry. Buyer power can reduce the attractiveness of an industry in several ways. Buyer power is dependent on the number of buyers in the market. If there were only a few buyers, then they would have a significant amount of bargaining power over suppliers and vice versa. Another factor that determines buyer power is the importance of the product or service to the buyer. If the product or service can be purchased anywhere or is an accessory component, then buyer power will be high.

##### **2.1.5.1 Number of Buyers**

The buyers for portable flash memory range from students to businessmen and women. The large number of buyers reduces the bargaining power of the individual buyer. Even buyers who are purchasing in large volumes are unlikely to have very much bargaining power.

#### **2.1.5.2 Importance of Product or Service**

Portable flash memory devices are not important products that are critical to buyers. It is rare for consumers to purchase multiple flash drives or replace older ones, even if prices are affordable, because the storage capacity of the devices they already own is more than sufficient for every day use. To make it worthwhile for a consumer to purchase another flash memory, it would have to have greater storage capacity or enhanced functionality, which would increase the price significantly. Security features like biometric scanners are expensive and not likely to suit the general public. Buyers will have increased power because they are not purchasing flash memory often and there are a number of other substitute consumer products available.

#### **2.1.5.3 Summary**

The analysis of the factors influencing buyer power suggests that buyer power is low due to the large number of buyers. Even though the flash drives are insignificant products to buyers, this does not give them much purchasing power, even for large volume purchases, because there are a considerable number of buyers in the market.

#### **2.1.6 Threat of Substitutes in Retail (Moderate)**

Porter identifies the threat of substitutes as a force that influences the attractiveness of an industry because readily available substitutes will likely reduce the profitability of an industry. There is a moderate threat of substitute in the retail flash memory industry. Factors that would influence the threat level of substitutes are the number of readily available substitutes and the value-price ratio of comparable products.

If a product or service has readily available substitutes that satisfy the same need then the threat of substitute products is high. A high substitution threat would suggest that the level of competition in the industry is high and this in turn would force down the price and reduce the profitability of the companies in the market. The value-price ratio evaluates the substitutes based on the level of value they add to satisfy the need against the cost incurred.

#### **2.1.6.1 Readily Available Substitute**

There are several readily available substitutes for flash drives that increase the threats of substitutes in the flash memory industry. Available substitutes for flash memory are CD, DVD, hard drive (HDD), memory cards, phones with storage ability, and floppy discs. The value added and a comparison of the substitutes are shown in Table 2-1. From the product comparison in Table 2-1, we can see that memory cards and MP3 players add similar value through their portability, capacity and read/ write speed. Flash memory devices are more versatile because they are compatible with a variety of digital electronics and the Universal Serial Bus (USB). USB is the standard connection used by computers to connect to digital devices. Many smaller notebooks, called netbooks, no longer have an optical drive to read DVDs and CDs, while floppy disc storage capacity is too small. Hard drives (HDD) tend to be much larger and less durable due to the moving components in them. Phones currently have limited storage capacity and likely require compatible software and hardware (cables) to connect to computers.

#### **2.1.6.2 Value-Price Ratio**

After analysing the value added by the substitutes for flash memory, we turn to the value-price ratio. Retail memory cards are currently selling at under USD \$20, a price similar price to flash memory with 4GB capacity but the value they add is different. Although the memory card is versatile and can be used in numerous products like cameras, cellular phones, and television, there are still computers that are not capable of accessing memory cards. On the other hand, USB ports are standard in all computers, eliminating the compatibility issue. Thus, for use on computers, the value of the memory card is less than that of a flash drive. MP3 players are similar to flash memory as they both connect via USB but tend to be less portable. As a storage medium, MP3 players have very similar benefits, but the price of MP3 players is much higher than flash memory. Most MP3 players in the \$20 USD price range will only have 1GB of memory, while flash drives in a similar price range will have 4 times the capacity.

#### **2.1.6.3 Summary**

The analysis reveals that the threat from MP3 players and memory cards as substitutes is moderate, as they meet most of the criteria for a readily available substitute. Although neither item truly meets the needs a flash drive can deliver through its value-price ratio, they are both an impending threat to the flash memory industry. As MP3 players become cheaper with larger capacity, it will be difficult to distinguish the value-price ratio between them and flash memory devices. An obviously KSF to reduce the threat of substitution is product differentiation, which diminishes the ability of other products to fulfil the same objectives as the flash memory. For example, an MP3 player



or memory card will not like be a substitute for a biometric flash drive with a finger print scanner for security purposes.

	Flash Memory	MP3	Hard Drive (HDD)	Phone Memory Storage	CD/ DVD RW	Memory Card
Versatility & compatibility	High- Compatible with multiple platform for read and write, easy exchange of information through Universal Serial Bus (USB), drag and drop	Moderate- Compatible with multiple platform for read and write, easy exchange of information through Universal Serial Bus (USB), drag and drop	Moderate- Compatible with multiple platform for read and write, easy exchange of information through Universal Serial Bus (USB), drag and drop	Moderate- Compatible with computer will be dependent on software and connect medium (USB, Bluetooth, infrared), multiple platform for read and write, drag and drop	Low- possibility of only read function depending on the disc, require software to burn data onto CD/DVDRW	Moderate- compatible with multiple platform but will require a card reader/adaptor, features both read and write functions
Portability	High-small, light and portable	Moderate	Low-Bulky	Moderate	Moderate	High
Capacity	Moderate- Commercial flash drives over 128gb are predominately over USD\$300	Moderate- Popular mp3 like the ipod have sizes from 2GB to 128GB capacity	High- 1TB capacities can be found at under USD \$90	Low- Most cellular phones have storage capacity of under 32GB	Low- Under 5GB capacity	Moderate- Most commercial memory card have capacity of under 128GB
Read & Write	Moderate- USB 2.0 standard has transfer rate of up to 30mbps	Moderate- USB 2.0 standard has transfer rate of up to 30mbps	High- Read and Write speed of over 40mbps	Moderate- USB 2.0 standard has transfer rate of up to 30mbps	Moderate- Read & Write speed of approximately 20mbps or less	Moderate- Under 20mbps
Stability & durability	High- Water resistant and drop resistant models available	High	Moderate- moving parts: spinning platter to record data	Moderate	Low- Easily scratched	Moderate

*Table 2-1 Substitutes for Portable Flash Drive*

### **2.1.7 Rivalry in Retail (Moderate)**

Porter identifies the final force that influences the attractiveness of an industry as the extent of rivalry among existing competitors within an industry. There is a moderate level of rivalry in the retail flash memory market. Rivalry in an industry generally reduces profitability in that market because prices are driven down. One factor that increases rivalry is the number of competitors in the industry. As the number of competitors increase, prices are driven down and profits are reduced. Another factor that increases rivalry is a high concentration of a small number of specialized competitors in a particular industry. The growth rate of the industry will also impact the level of rivalry, as markets with slow growth rates will force incumbents to take market share from each other. Another factor that influences the level of rivalry is the amount of excess capacity in the firms. As firms incur excess capacity they will be forced to sell their extra products at lower prices to retail their products.

#### **2.1.7.1 Number of competitors for Retail**

There are a large number of competitors in the industry supplying flash drives, from well-known brands, like Sandisk and Lexar, to companies like Duracell, which just started selling them. There are thousands of flash drives producers in Asia that manufacture generic products and low-priced counterfeits are flooding the market. The many competitors in the market are likely to increase the level of rivalry and reduce profits. If competition increases to a point where the market drives the prices and the

businesses become price takers driven by competition, perfect competition will exist. In a perfectly competitive market, economic profit will not be attainable because marginal cost will equal marginal revenue.

#### **2.1.7.2 High Concentration Industry**

The NAND architecture industry is highly concentrated, with a few major players on the frontier, supporting the research and development. The major players that dominate the development in flash memory are Sandisk, Lexar, Samsung and Kingston. There is considerable rivalry among these players as they try to protect their market share through price wars and advancements in research and development. Product differentiation plays an important role as competition increases and competitors look to provide greater value to consumers without cutting into their margins.

#### **2.1.7.3 Growth rate of Industry**

Sales of flash memory increased by 19% during 2005. NAND flash memory was the first to integrate 64-Gbit and 128-Gbit chip, capacities that were available commercially in 2009. In 2007, NAND flash memory had grown to a market value of Yen 1.5 trillion per year, which is approximately USD \$10.4 billion. (Techon, 2007). The growth of flash memory has transitioned to hard disk drives (HDD) for portable computers and components for solid-state drives. The growth of the industry has encouraged incumbents and entrants alike to capitalize on the market, increasing profits and market share. The growing market has offset the rising numbers of generic flash memory producers that increased the level of rivalry in the industry.

#### **2.1.7.4 Excess Capacity**

Currently the market is unsaturated as demands for NAND flash memory continues to rise and companies continue to develop larger memory capacities in small ergonomics that are used in innovative products. There is no excess capacity to drive down the prices, which in turn would increase competition in the flash memory industry.

#### **2.1.7.5 Summary**

The analysis of the factors influencing the level of rivalry in the flash memory industry suggests there is a moderate level of rivalry. Factors that increase rivalry are the numerous competitors in the industry and the fact that the flash memory is highly concentrated with a few major players supporting the research and development. On the other hand, the high growth rate of the industry and the unsaturated capacity of the market indicate there is still room for competitors to enter the market or expand market share and make a profit without taking much market share from competitors. The KSF for competitors in the industry is product differentiation because, as competition increases, there are drawbacks to competing on price as margins become too low to sustain the business. Product differentiation will allow competitors to increase margins, separate from the herd and provide greater value to consumers.

### **2.2 Industry Attractiveness**

The industry analysis indicates that entry into the flash memory industry is moderate to favourable. Table 2-2 list the forces that determine the level of success in the two industries.

*Table 2-2 Overview of Forces on Retail Industry*

Five Forces for Retail Industry	Strength	Impact to industry
Threat of new Entrants:	Low	Favourable
Power of Supplier:	Moderate-High	Unfavourable
Power of buyer:	Low	Favourable
Intensity of Competitive Rivalry:	Moderate	Moderate
Threat of Substitute:	Moderate	Moderate

Overall entry into the wholesale promotional product and retail portable memory industry is a favourable proposition. Once entry has been achieved, the company will be well protected by entry barriers like learning effects, brand, and switching costs. The entrants must mitigate threats of supplier power and substitutes. These threats will be discussed in Section 2.5.

### **2.3 Key Success Factors (KSF)**

To distinguish competitors' strengths and weaknesses and the subsequent opportunities and threats in the industry, it is vital to understand each industry's KSF. Table 2-3 evaluates the KSF according to its importance to enhance the possibility of penetrating the retail flash memory industry successfully. Product differentiation is identified as the most important KSF because both industries are in the growth stage of

the life cycle, where product differentiation is vital. The ability to acquire key technology and resources is also important, as the market is concentrated with a few major competitors influencing research and development. The distribution infrastructure and distribution channel is significant, as entrants will need to be able to target their customers and provide fast and quality service. Economies of scale are less important due to the differentiation strategy necessary to penetrate the market but will influence the level of competition nonetheless.

*Table 2-3 Ranking of KSF in Retail Industry*

Ranking 3 = Very important 2 = Important 1 = less Important	Key Success Factors
3	Product & Service differentiation to reduce availability of substitutes and set apart from competitors
3	Ability to acquire key technology and critical components from Supplier
2	Access to distribution channel and possession of efficient distribution infrastructure
2	Economies of Scale
2	Brand Recognition

## **2.4 Competitive Analysis**

The competitive analysis will follow a similar format for both industries.

Competitors in the industry will be evaluated based on their ability to achieve KSFs based on a scale of 1-5, where 5 indicates achieving competitive advantage and 1 indicates a threat of losing market share. The competitive analysis focuses on direct competitors in portable flash memory industry; Sandisk with a differentiation strategy and Kingston with a cost based strategy. A competitor's product from each industry is then weighed against Sgedra's to evaluate its competitiveness and value to customers.

### **2.4.1 Competitive Analysis for Retail of Portable Flash Memory**

Two companies that are flourishing in the flash memory industry are Kingston Technology and Sandisk. Although both have a sizable market share, they have different strategies. During the fiscal year 2008, Kingston was able to prosper with their cost base strategy, even with the financial turmoil, while Sandisk performed modestly with lower total revenue (Sandisk. 2008). Sandisk's differentiation strategy resulted in higher prices that adversely impacted their sales during the financial crisis. The cost base provider, Kingston, was able to attract a greater market share as customers' purchases became restrained. Many of the flash drives from Sandisk are more than 40% more than expensive than Kingston's (Buy.com, 2009). During the prosperous years prior to 2008, Sandisk was able to out-perform Kingston and provide greater value to consumers through innovative products that provided enhanced speed and security. Comparing the two competitors suggests a product differentiation strategy will be valuable as the economy recovers and flourishes. In addition, since both industries are in the growth

stage of their life cycle, product differentiation will be vital as the level of competition increases. Table 2-4 compares Sgedra against Sandisk and Kingston based on the KSF for the retail of portable flash memory. The competitors, Sandisk and Kingston, are grouped together because they have significant similar characteristics even though they operate under different strategies. Although Sandisk provides higher quality products, they do not go beyond the base ergonomics and capabilities of a typical flash drive. Table 2-4 indicates that although Sandisk and Kingston have established distribution channels, brand recognition and economies of scale, Sgedra will be able to compete based on a differentiated product strategy and quick adoption of new technology.

*Table 2-4 Competitive Analysis*

KSF	SGEDRA		Retail Competitor (Sandisk/Kingston Technology)	
Product & Service differentiation	5-Product is more flexible and adaptive then competitors (compatible with USB & digital electronics like cameras)	<input checked="" type="checkbox"/>	3.5-Limited product differentiation although Sandisk improved speed/security and design	<input checked="" type="checkbox"/>
Ability to acquire key technology and critical components from Supplier	5-Ability to source from a variety of manufacturers that have innovative products	<input checked="" type="checkbox"/>	3.5-Slow adaptation to innovation technology due to sluggish adoption of new ideas in large corporations	<input checked="" type="checkbox"/>
Access to distribution channel and possession of efficient distribution infrastructure	3.5-International distribution through website but limited brick and motor retailers i.e. FutureShop	<input checked="" type="checkbox"/>	5-Distribution through websites, and brick and motor retailers i.e. FutureShop	<input checked="" type="checkbox"/>
Economies of Scale	3-Retail mainly in North America	<input checked="" type="checkbox"/>	5-Retail on global scale	<input checked="" type="checkbox"/>
Brand Recognition	3-Brand is well known in Asia	<input checked="" type="checkbox"/>	5-Brand is recognition internationally	<input checked="" type="checkbox"/>



Next, products from direct competitors will be compared to Sgedra to identify the value added. The criteria that are significant for portable flash memory devices are versatility, portability, memory capacity, read/ write speed, and durability. Table 2-5 shows how Sgedra's microSD adaptor and microSD card stands up against USB flash memory.

*Table 2-5 Product Comparison in Retail Industry*

Value criteria for retail portable flash memory storage devices	SGEDRA (NanoSAC microSD adaptor + microSD card)		Competitors (USB Flash memory)	
Versatility	HIGH-Compatible with computers via USB and consumer products like digital cameras, cellular phones, printers	<input checked="" type="checkbox"/>	Moderate-Compatible with computers via USB	<input checked="" type="checkbox"/>
Portability	HIGH-smaller and lighter	<input checked="" type="checkbox"/>	Moderate-high	<input checked="" type="checkbox"/>
Capacity	Moderate<128GB	<input checked="" type="checkbox"/>	Moderate<128GB	<input checked="" type="checkbox"/>
Read & write speed	Moderate <20mbps	<input checked="" type="checkbox"/>	Moderate <30mbps	<input checked="" type="checkbox"/>
Stability & Durability	HIGH	<input checked="" type="checkbox"/>	HIGH	<input checked="" type="checkbox"/>
Price	Competitive	<input checked="" type="checkbox"/>	Competitive	<input checked="" type="checkbox"/>

The Sgedra products are able to compete favourably through differentiation. The microSD cards can be compatible with multiple consumer products like digital cameras, cellular phones, televisions, photo frames and printers. The ability to integrate in multiple products along with a competitive price point, places the Sgedra products at a competitive

advantage, as they provide greater value in a more portable size with similar transfer speeds.

## **2.5 Opportunity/Threat**

The opportunities and threats will be based on the competitive analysis presented in Table 2-4 where the KSF possessed by the company will be opportunities and the KSF possessed by competitors will be threats. Specific opportunities within the product comparison are derived from Table 2-5. The analysis will first identify the opportunities and threats for retail portable flash memory and the next chapter will look at the different opportunities and threats the promotional product industry will present.

### **2.5.1 Opportunity and Threat in Flash Memory Industry**

In the flash memory industry, Sgedra will encounter competitors with efficient infrastructure for distribution and access to distribution channels. These will be a threat. Sgedra will need to build or purchase their own information system to manage their inventory and logistics, and possibly struggle to displace competitors at brick and mortar retailers. Another threat Sgedra will face is a higher average variable cost because of the difficulty of achieving volumes high enough to attain economies of scale. The last and most severe threat is the lack of brand recognition and the barriers incumbents put in place with their marketing campaigns. It will take time for Sgedra to create a recognizable brand that portrays credibility and performance equal to that many incumbents have created.

Sgedra will have many opportunities to outshine the competitors through the most significant KSF for an industry in the growth stage, product differentiation. The company will be set apart from competitors by providing differentiated products that provide greater value to consumers. Sgedra will have a first mover advantage that will yield considerable margins during the first few years of operation. Another opportunity Sgedra has is the ability to adopt new technologies and trends faster than larger competitors that rely on their own research and development. In contrast to its larger counterparts, as a small start-up company, Sgedra is flexible and adaptive to the changing environment. Sgedra will be able to source popular products, disregarding the brand, while competitors will need to take time to reverse engineer products to make their own or undertake research to make a similar product.

### **3: Key differences between the Retail Portable Memory**

#### **Industry and the Promotional Product Industry**

The next section will analyze the forces that differ with respect to the wholesale of promotional products relative to retail products. The wholesale of promotional products has very similar properties to the retail sale of flash memory. Both markets are in the growth stage of the life cycle and both are likely to have suppliers from Asia. The similarities between the markets persist to yield similar KSFs necessary to sustain a competitive advantage.

##### **3.1.1 Threat of Entrants in Wholesale (Low)**

The threat of entrants in the wholesale promotional item industry will include the threats previously mentioned for the retail of flash memory but also several criteria that differ from retail of flash memory. The capital requirements, access to distribution channels, switching costs, and experience and learning effects are likely to be barriers that entrants will encounter in the wholesale sector.

###### **3.1.1.1 Capital Requirement**

The initial capital required to start the business and allocated working capital will be a barrier to entry. Depending on the volume and rate of orders, entrants may require significant capital to facilitate transactions and maintain operating liquidity. The

receivable turnover will vary and may result in lower liquidity than anticipated. It may be difficult for new start up companies to obtain attractive loans due to limited credit. The lack of a credible and recognizable company may cause suppliers to decrease the length of the payment terms, limiting their own risk but also reducing the liquidity of the entrant. Suppliers may be reluctant to give new companies their preferred rate, causing higher average costs for entrants.

#### **3.1.1.2 Experience and Learning effects**

There are greater obstacles to entry as promotional product companies no longer just provide a product but also supply a variety of services. The experience required for product design, silk screening, logo imprint and preloading data all add to the experience and learning effects that incumbents have achieved, which entrants will have to overcome. The management of supplier relations and logistics will also be an area where incumbents, with their added experience, will be able to reduce costs, but where entrants will likely struggle. For a promotional product company, the experience and learning effects are KSFs to maintaining good relations with multiple suppliers, and providing product design, silk screening, and other services.

#### **3.1.1.3 Access to Distribution channels**

Entrants will face competitors, currently in the industry, with structured distribution channels that are likely to be much more efficient than those used by companies new to the industry. The Internet has allowed distributors to directly connect with clients and transfer information at very low costs (PPIBlog, 2009). Many current

promotional product companies allow clients to insert their logo or picture onto the product online and make the purchase directly. The information system allows the suppliers to access the order and begin filling the order immediately, improving the speed of the service. To compete with the speed of competitors, entrants need to create an efficient distribution infrastructure that will link to their suppliers or hold larger volumes of inventory or machinery, which subsequently increases their fixed costs. A KSF to maintain competitive advantage is the creation of an efficient distribution infrastructure that is simultaneously linked to their supplier to increase speed of service.

#### **3.1.1.4 Switching Costs**

Although the promotional product market is unsaturated, entrants will be competing for big clients already purchasing in the market. Switching costs will be an issue, as clients will have an incentive to stay with their current provider who has worked with them to customize the logos for their promotional products, has privileged information about their company, and with whom they have built trust through previous business interactions. Unless entrants provide a cost incentive or a unique product or service, they are unlikely to be able to seize market share from incumbents. A KSF to gain market share is overcoming switching costs faced by consumers, as that will provide entrants with added value within the spectrum of products consumers have to choose from.

### **3.1.1.5 Summary**

The analysis suggests the threats of entrants in the promotional product industry are low due to several factors. The difficulty of attaining minimum efficient scale and competing against a recognized and trusted brand put entrants at a severe disadvantage. In addition, the higher costs entrants face, because of limited experience and the learning effect, jeopardizes their ability to compete based on costs. The entrant will also have to develop a distribution channel equivalent to the incumbents to gain the necessary exposure but will still need to overcome the switching costs incurred by clients. The capital requirements may also prove to be a barrier, depending on the company's ability to raise capital. Successful entry is possible through the effective implementation of the KSFs. A product differentiation strategy and an efficient infrastructure for distribution will be essential to penetrate the promotional product industry and maintain a competitive advantage. Brand recognition is a KSF that will require time to obtain but is unlikely to be a detrimental obstacle to entrants. Overcoming switching costs, experience and learning effects are KSFs that will be difficult to achieve and will prove to be an obstacle once the market is saturated.

### **3.1.2 Power of Suppliers in Wholesale (Moderate-High)**

Please refer to Section 2.1.4 for power of supplier for promotional products.

### **3.1.3 Power of Buyers in Wholesale (Low)**

The bargaining powers of buyers are dependent on the number of buyers and the importance of the product and service to the buyer. Buyers for promotional products are

largely from the education, financial, not-for-profit, healthcare, construction, trade, real estate and government sectors. Table 3-1 reveals the ranking of the top clients in the promotional product industry.

*Table 3-1 Ranking of Buyers in Promotional Product Industry*

2007 Rank	2003 Rank	2000 Rank	Industry
1	1	4	Education: School, seminars
2	2	1	Financial: banks, credit unions, stock brokers
3	4	3	Not-for-profit: charities, churches
4	3	2	Healthcare: hospitals, nursing homes, clinics, pharmacies
5	5	11	Construction: building trades, building supplies

(PPAI.ORG)



#### **3.1.3.1 Number of Buyers**

The number of buyers in the promotional product industry is large, with more than USD \$19.4 billion in sales annually (PPAI, 2009). With the diverse spectrum of buyers from the education sector to the entertainment and sporting events sector, buyers have limited negotiating power unless they buy in significant volume. Large corporations and governments will tend to have more bargaining power through their volume purchases but even these customers are unlikely to constitute a significant portion of the business for promotional product companies due to the large number of buyers.

#### **3.1.3.2 Importance of Product or Service to Buyer**

Promotional products are unlikely to be of great importance to buyers as there are many avenues of marketing to customer and gaining exposure. Generally, promotional products are used to build customer loyalty and gain exposure with a target audience. Since it is much easier to retain a customer than to attract a new customer, clients will utilize many different methods to attract new customers in addition to promotional products, thus reducing its importance. Figure 3-1 below shows the promotional products share of advertising expenditure in 2007.

Promotional products made up 21.2% of advertising expenditure in 2007. Clients are likely to position their promotional product strategy as an inessential part of their overall marketing strategy and may reduce spending on promotional products during times of financial difficulty.

### 3.1.3.3 Summary

The two criteria, number of buyers and importance of product and service to the buyer, counteract each other leaving both seller and buyer without significant bargaining power. The seller will not be able to sell at premium because promotional products are unlikely to be a vital part of the buyer's business strategy. On the other hand, buyers are so plentiful that the bargaining power of the individual buyers is reduced.

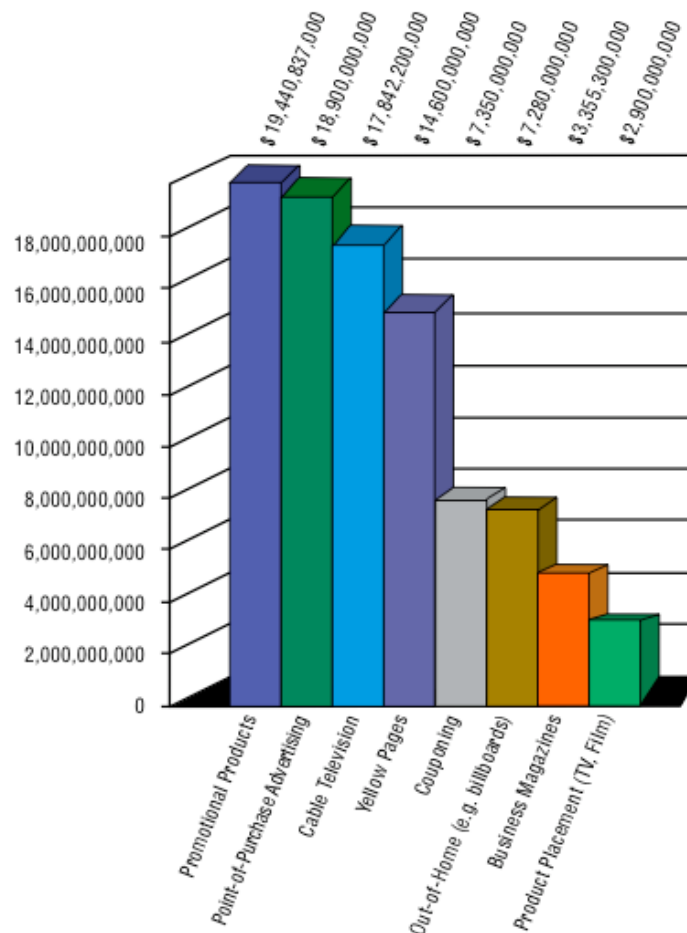


Figure 3-1 2007 Breakdown of Marketing Tools

### **3.1.4 Threat of Substitutes in Wholesale (High)**

The threat of substitutes in promotional products will depend on the availability of substitutes and the value-price ratio of the substitutes. Since promotional products are generally not vital parts of a business's marketing strategy, the availability of alternatives as substitutes is high.

#### **3.1.4.1 Availability of Substitutes & Value-price Ratio**

As part of the customer retention and marketing strategy to gain exposure, substitutes for promotional products may include a variety of advertisements like commercials on cable television, point of purchase advertising, advertisements on radio stations and billboards. Substitutes can also include raffles, discounts for current customers and other incentive programs. Due to the vast number of marketing options available as substitutes and the large price range available, it will be difficult to evaluate the value-price ratio. It will be difficult to provide the same value that promotional products have because they are physical objects that can be used by the customers and which remind them of the client's company. Production differentiation is once again a KSF because it is vital for the promotional products to provide a unique feature that other advertising methods are unable to provide. If other advertising methods that provide the same value can easily be substituted for promotional products, the industry will have difficulty remaining profitable. Figure 3-1 identifies seven major advertising categories that do not provide the same value as promotional products.

#### **3.1.4.2 Summary**

The threat of substitutes is high due to the inessential nature of promotional products in most business's marketing strategies. Companies have a spectrum of tools to market to customers, such as discounts, commercials, special events and campaigns that vary in price and value. Although the promotional product industry is under a cost strategy, there is a high risk of substitution because through the many different marketing media that vary in price. Product differentiation is a KSF because it adds exclusive value not provided by other products or services. Success in the promotional product industry will require product differentiation to reduce the ability of other marketing tools to provide the same value as promotional products.

#### **3.1.5 Rivalry in Wholesale (Moderate)**

Rivalry in the wholesale promotional product market will be an influence but it will be mitigated by the number of competitors in the industry and the industry growth rate. Rivalry will also be dependent on the degree of concentration in the industry, which could result in low profitability due to competition between a few major players. The promotional product industry is generally competing with a low cost strategy. As a result, an increase in the number of competitors will exacerbate price competition and reduce margins.

##### **3.1.5.1 Number of Competitors in the Industry**

The number of competitors in the promotional product market has increased significantly as trade in China opened up and direct distribution became possible.

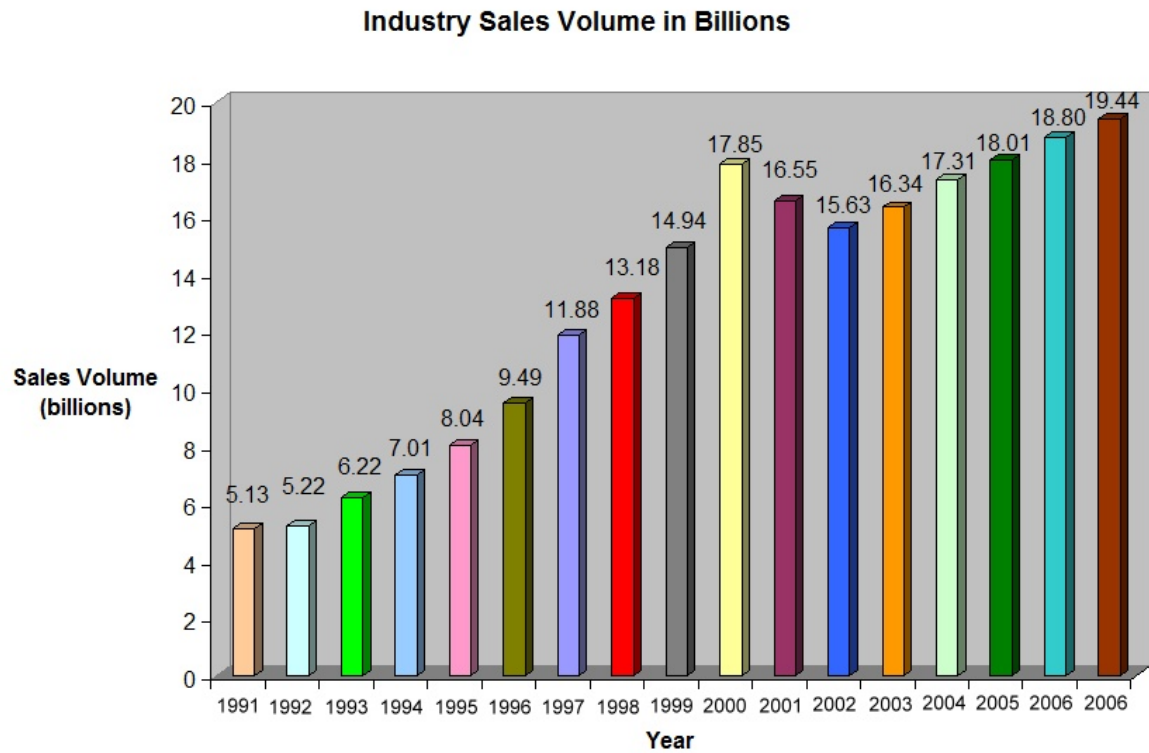
Websites like Global Source, Alibaba and EC21 have allowed companies to source products internationally. The increased number of competitors has reduced the attractiveness of the industry by forcing prices down.

#### **3.1.5.2 Industry Growth Rate**

The promotional product market increased over 24% from 2002 to 2007 from USD \$15.63 to USD \$19.44 billion in sales, as is illustrated in Figure 3-2 (PPAI, 2009). The growth rate is approximately 5% each year. The increase in competition due to globalization has amplified the need to distinguish one's company in order to maintain and gain market share. The promotional product industry is on a growth trend providing an unsaturated market for incumbents and entrants alike in which to obtain profits and market share.

#### **3.1.5.3 Summary**

The two criteria, the industry growth rate and the number of competitors in the industry counteract each other, resulting in a moderate level of rivalry in the promotional product industry. Although there are many competitors currently in the market, the increase in competition between clients has enticed more of them to utilize promotional products to gain a strategic advantage. The growth of the promotional product industry has continued subsequently producing an unsaturated market that leaves room for new entrants.



*Figure 3-2 Promotional Product Growth (in Billions)*

## 3.2 Overview of the Promotional Product Industry

*Table 3-2 Overview of Forces on the Promotional Product Industry*

Five Forces for Wholesale Industry	Strength	Impact to industry
Threat of new Entrants:	Low	Favourable
Power of Supplier:	Moderate-High	Unfavourable
Power of buyer:	Low	Favourable
Intensity of Competitive Rivalry:	Moderate	Moderate
Threat of Substitute:	High	Unfavourable

Table 3-2 identifies the forces of competition and their impact on the promotional product industry and suggests that conditions are moderate to favourable for entrance into the industry. The major difference between the industry analysis for retail and wholesale is the greater threat of substitutes.

### 3.3 Differences in KSFs for the Promotional Product Industry

*Table 3-3 Ranking of KSFs for the Promotional Product Industry*

Ranking 3 = Very important 2 = Important 1 = less Important	Key Success Factors
2	Experience and Learning effects
1	Overcoming Switching Costs

The most important KSFs for the promotional product industry are the same as for the retail of flash memory, as shown in Table 2-3. Table 3-3 reveals two additional KSFs, the experience and learning effect, and overcoming switching costs for promotional products that are of less importance. Product differentiation will overshadow the importance of switching costs if consumers perceive greater value.

### **3.4 Differences in Competitive Analysis for Promotional Product**

The differences between the competitive analysis for retail and wholesale are mainly due to the greater number of KSFs required in the wholesale industry and the difference between the clientele for the two markets.

#### **3.4.1 Competitive Analysis for Wholesale of Promotional Product**

Sgedra will be compared to Branders, a cost- based strategy competitor, and PromosCanada, a differentiation strategy competitor. Branders employs a low cost strategy with limited features and services for customers but with a variety of products. The flash memory sold by Branders does not come with extra features, like pre-loaded data and custom packaging, that PromosCanada provides free of charge. Table 3-4 below evaluates Sgedra against the two competitors based on the KSFs for the promotional product industry.

Similarly, Sgedra products provide greater value, although at a higher price, than low cost providers like Branders. Even though Sgedra has a limited product line, the products provide greater exposure due to their usefulness in business and personal affairs.

Table 3-5 evaluates promotional products based on price, usability/versatility, exposure, quality/durability, and quality and speed of service.



Table 3-4 Competitive Analysis of the Promotional Product Industry

KSF for Promotional Product Industry	Sgedra		Branders (Cost Strategy)		PromosCanada (Differentiation Strategy)	
Product & Service differentiation	5-Product is versatile and useful	<input checked="" type="checkbox"/>	2.5-Limit	<input checked="" type="checkbox"/>	3.5-Moderate, custom packaging and preloaded data	<input checked="" type="checkbox"/>
Ability to acquire key technology and critical components from Supplier	5-Adaptive to new innovations	<input checked="" type="checkbox"/>	2-Limited flexibility in acquiring new products	<input checked="" type="checkbox"/>	3-Trend follower with slow adoption and acquisition of technology	<input checked="" type="checkbox"/>
Access to distribution channel and possession of efficient distribution infrastructure	3.5-New distribution infrastructure will tend to be less efficient than incumbents	<input checked="" type="checkbox"/>	4-Distribution through website	<input checked="" type="checkbox"/>	4.5-Distribution through website with custom modification available to clients	<input checked="" type="checkbox"/>
Economics of Scale	4-North America	<input checked="" type="checkbox"/>	4-North America	<input checked="" type="checkbox"/>	4-North America	<input checked="" type="checkbox"/>
Brand Recognition	3- Imported product brands are known in Asia	<input checked="" type="checkbox"/>	5-Well Recognized	<input checked="" type="checkbox"/>	5-Well Recognized	<input checked="" type="checkbox"/>
Experience & learning effect	2.5- Imported product brands are known in Asia	<input checked="" type="checkbox"/>	5-Well Established	<input checked="" type="checkbox"/>	5-Well Established	<input checked="" type="checkbox"/>
Overcoming Switching Cost	5- Differentiated Products to overcome cost	<input checked="" type="checkbox"/>	2- Limited distinctiveness	<input checked="" type="checkbox"/>	3- Moderate level of uniqueness with high cost	<input checked="" type="checkbox"/>

*Table 3-5 Product Comparison in the Promotional Product Industry*

Value criteria for wholesale of promotional product	SGEDRA (NanoSAC microSD adaptor + microSD card)		Competitors (Branders etc)	
Price	Package is under \$5.00	<input checked="" type="checkbox"/>	Products average under \$2.00	<input checked="" type="checkbox"/>
Usability & Versatility	High-interchangeable memory card, connect via USB and usable with cameras, cellular phone etc	<input checked="" type="checkbox"/>	Low	<input checked="" type="checkbox"/>
Level of Exposure	High- useful for transfer of data between business and personal interactions	<input checked="" type="checkbox"/>	Low- Mugs, unattractive pen, bags, flashlights are all likely to be used only in the household and limited to an environment with low exposure.	<input checked="" type="checkbox"/>
Quality & Durability	High	<input checked="" type="checkbox"/>	Low quality products that	<input checked="" type="checkbox"/>

### **3.5 Differences in Opportunities and Threats in Promotional Products**

#### **3.5.1 Opportunities and Threats for Promotional Products**

One of the major threats Sgedra will face is an inefficient distribution infrastructure that links to suppliers. Incumbents will have had the experience and time to build a proficient infrastructure to speed up the process between when an order is first placed and when the products are shipped from the manufacturers. The quality and speed of the service are vital criteria as clients hosting events, like conventions and marketing campaigns, are often on a tight time line. Another threat Sgedra will face is the possibility

of, on average, higher costs due to smaller volume purchases during the initial stages of operations. Although competitors with differentiation strategy tend to operate with higher costs than Sgedra, the inability to attain economies of scale will drastically reduce Sgedra's profit margins. Another cost that Sgedra might face is due to the experience and learning effects. It is likely that, during the early years of the undertaking, the operating expenses will be higher than its competitors due to lack of experience. A less substantial threat that Sgedra will have to overcome is brand recognition. Incumbents that enjoy strong brand recognition will likely be able to operate with higher margins as consumers are willing to pay more for the perceived credibility and quality of service. To catch up to competitors, Sgedra will need to build up its brands by spending considerable time and money to advertise the company.

In addition to the opportunities Sgedra will have in the retail sector, in the promotional product industry the company will be better equipped to overcome switching costs due to the added value from their product differentiation strategy. Sgedra will be able to manoeuvre quickly to seize opportunities in technology advancements, while competitors will lag behind.

## **4: Strategic Proposal**

The strategic proposal will be a breakdown of the management and organizational capabilities, and resources necessary within the company to successfully penetrate the flash memory and promotional product industries. The discussion will begin with a strategic fit grid adapted from Ed Bukszar (2009) providing a brief overview of the required strategy, management, organization and resources.

### **4.1 Strategic Fit Grid**

The strategic fit grid shown in Table 4-1 uses a range from 1-10 to rank the capabilities the proposed company will require to penetrate the flash memory and promotional product industries successfully. A differentiation strategy is necessary to capitalize on the opportunities and utilize the KSFs necessary to enter the two industries. The cost advantages of attaining economies of scale will need to be moderated relative to the implementation of a differentiation strategy. The differentiation strategy is ranked high, with a score of 8 for innovation. The rapid pace of technological advancement requires an organization that is flexible, has a dynamic environment and is able to make decisions quickly. Management will need to be highly skilled to be adaptive to the changing environments within the industry. The company will utilize both push marketing through websites and forums and pull marketing with free samples to entice

new customers. The company will take advantage of a leveraged capital structure as operations gain momentum.

		<div> <div>Cost Based</div> <div>←</div> <div>→</div> <div>Differentiation</div> </div>									
		Low Cost, Adequate Quality					High Quality, Adequate Cost				
	Source	1	2	3	4	5	6	7	8	9	10
Product	Rapid Follower								X		Innovative
Strategy											
Structure	Centralized									X	Decentralized
Decision Making	Less Autonomy								X		Autonomy
Production, Service	Economies of Scale						X				Economies of Scope, Flexible
Labour	Mass Production								X		Highly Skilled, Flexible
Marketing	Comparative, Push				X						Pioneering, Pull
Capital Structure	Leveraged (Debt)				X						Conservative (Equity)

Table 4-1 Strategic Fit Grid

## 4.2 Management

The management of the company will need to be aligned with the goal of the company to operate successfully in the competitive market. The preferences, values, decision criteria, experience and management team will need to complement the strategy of the company.

#### **4.2.1 Management Preferences & Decision Criteria**

Management preferences will need to be aligned with the desire to stay ahead of the technology curve and be adaptive to new innovative products. Management must be comfortable with technology and familiar with consumer electronics. The decision criteria for management will need to reflect the company's desire to provide differentiated products and great service. For example, suppliers and manufacturers in business with Sgedra must provide quality products and fast service to distinguish themselves from low quality wholesalers employing a cost-based strategy. Management's decision criteria must be based on whether products and services add greater value and are capable of distinguishing Sgedra from competitors.

#### **4.2.2 Management Experience & Management Team**

Sgedra's management team must have a member who is experienced with technology and familiar with the latest, state-of-the-art trends. This person will be able to capitalize on today's technology to enhance the distribution channel and the user experience. The main medium for the transfer of information to clients will be the online website. A customer and supplier database will be mandatory. In addition, an information system to support orders and facilitate the transfer of information to suppliers will be necessary to increase the speed of service. The person responsible for this system must be familiar with software applications to facilitate the process from the front end to the back end - from the shopping cart to the supplier information system. This technology savvy individual will also take responsibility for merchandising by keeping an eye on market trends and emerging technology, and bring new product ideas to the company.

The main source of competitive advantage will be the active and on-going research by the management team pursuing innovative products and services to differentiate the Sgedra from competitors. Sgedra will be able to take the first mover advantage by being the first to test and try new products. Through the successful use of the product differentiation strategy, clients will be inclined to switch suppliers because the perceived associated switching costs will be reduced.

To control and reduce the cost of operations, purchasing and accounting acumen will also be a necessary part of the management skill set.. This person responsible for accounting should be familiar with standard business accounting practices and be capable of maintaining the company's essential records. The company will also require a purchaser who can work closely with the technologists to identify and bring in new products, through purchasing samples online and at conventions. To reduce costs, the purchaser will need to be conscious of the benefits of economies of scale and, where possible order in bulk, while at the same time balancing the speed of service and against the potential of reduced costs made possible by ordering in bulk. A coordinator or supervisory position may be necessary to ensure the goods purchased are legitimate, meet quality standards and performance requirements and are shipped on schedule. Regular suppliers will not require supervision but new suppliers and manufacturers that have been just brought on board will require guidance to ensure no mistakes are made when volume purchases are to be delivered.

Marketing will be through conventions, the Internet and face-to-face interactions with clients. A marketing and sales manager will need to be part of the management team to achieve the sales target. To reduce the threat from the brand recognition that

incumbents enjoy over Sgedra, the company will provide free samples to their target market in the wholesale industry. Marketing for the retail sector will be through online forums and advertisement on technology websites. A finance manager will be necessary to handle the operating expenses and operating liquidity of the company. This individual will also be in charge of raising capital through loans and investment opportunities.

To reduce the adverse effect the company will encounter due to the lack of experience and learning effects, the management team will need an individual who has an overall understanding of what is needed and has experience starting a company. Preferably, this individual will have experience related to the technology industry. Legal services will be necessary to manage situations involving counterfeit products, exclusivity contracts, the acquisition of new products and the modification/integration of products.

### **4.3 Organization**

The organizational structure must be aligned with the strategy of the company to facilitate its progress. With a differentiation strategy, the company will need to have a decentralized structure to capitalize on presented opportunities and an organizational culture that promotes change and innovation.

#### **4.3.1 Structure**

To be flexible and able to quickly adapt to take advantage of opportunities, the organizational structure will need to be flat. As seen in Table 4-1, the company scores a 9 for a decentralized structure. To reduce costs, operations will be conducted over the



Internet, saving the expense of a storefront. The company will utilize a free flowing organic model that has low formalization and cross-functional teams with high participation in decision-making. From Table 4-1, the strategic fit grid, we can see that the company scores 8 for high level of autonomy in decision making, which will enable it to become a nimble competitor in the industry.

#### **4.3.2 Systems**

The infrastructure of the organization will be based mainly on shared Internet applications that allow quick and easy transfer and access to information. An inventory and purchasing system will also be in place to manage and facilitate operations. The purchasing system should be linked to or compatible with the company's regular suppliers and manufacturers to increase the speed of transactions. A shopping cart and customer relation management (CRM) system will need to be implemented to facilitate purchases and information management.

#### **4.3.3 Organizational Culture**

To implement the differentiation strategy successfully, the culture of the organization must be adaptive to change and strive to remain on the cutting edge of technology. The corporate culture should be enjoyable, enthusiastic and energetic. The strategies and goals will be driven by the management team, but established by the employees; creating an environment that values continued improvement of the products and services provided. The organization will promote and reward achievements through motivational programs.

## **4.4 Resources**

The new start up will require both operational and financial resources to sustain operations. During the initial stages of operation, the company may require greater financial resources and less operational resources, as the company will operate below its optimal level.

### **4.4.1 Operational Resource**

The management team will each require a laptop for communication purposes and for presentations to clients of wholesale promotional products. As the company begins to grow, it will require a storage facility to coordinate shipments for volume purchases of promotional products.

A vital resource necessary for Sgedra to implement their differentiation strategy is an exclusivity contract in North American from their main supplier, EagleTec. EagleTec products are differentiated and unique and support Sgedra's strategy of offering distinctive products.

### **4.4.2 Financial Resource**

The financing required for the business venture will likely be \$5000 CDN start up the retail sector but may require operating capital up to \$10,000- \$15,000 for wholesale promotional products. The company will likely incur other start up costs, such as registration fees, domain name, purchases of samples, and software applications for managing inventory, suppliers and the shopping cart.

## **5: Internal Analysis**

The internal analysis will describe the present capabilities of management, the organization and its resource and discuss the requirements necessary to implement the business venture. The requirements to fulfil the strategic proposal will be evaluated based on cost and attainability. Finally, a recommendation is made as to whether the business venture should be pursued or abandon.

### **5.1 Management**

#### **5.1.1 Present Capabilities**

The management team of Sgedra is made up of four people: Michael Chan, Alex Wong, Kelvin Lam and Jimmy Li. Michael has a Bachelor in Economics and is currently completing his MBA. Alex is an entrepreneur and a co-owner of a Vancouver based start up company called Diverse Technology that specializes in high-end technology for automotive GPS tracking. Alex will be able to apply his business and technological experience to reduce the advantage incumbents have with experience and the learning effect. Both Michael and Alex are tech savvy and are up-to-date with the latest technological developments in consumer products. Both individuals will participate in the selection of differentiated products. Michael has work experience in inventory management and accounting and is capable of managing cross-functional departments. Alex is also a programmer and is capable of managing the software necessary for the

company to begin operations. Kelvin is a financial planner and has experience in sales and presentation of wholesale products. Kelvin will manage the financial needs of the company, from raising capital to investing. In addition, Kelvin will be in charge of the sales department and will develop sales leads lists to identify potential clients in the wholesale market. Jimmy's background is in biology and he will be the purchaser for Sgedra. Jimmy will manage the basic operations, from answering customer emails to placing orders. He will also support Kelvin in sales initiatives. Through personal connections, Sgedra has acquired a coordinator in Hong Kong to coordinate purchases and ensure quality and timely shipment of products.

### **5.1.2 Missing Capabilities**

Sgedra may be lacking an experienced purchaser who is capable of negotiating prices and making informed purchasing decisions in the technology market. Although the purchasing task may not be difficult, the prices negotiated will be consequential to the profitability of the company. Another deficient aspect of the management is the absence of a specialized accountant to help the company optimize their operations and reduce costs and taxes. The company also lacks a marketing manager to promote the company and its products. As a new start up, Sgedra will need to increase the exposure of company and the products it carries, but without a manager to focus on advertising the company it may get lost amongst the countless other new businesses. The final aspect that is absent in the management team is legal counsel. The company does not have in-house legal counsel and has not identified an appropriate lawyer to provide advice on issues such as fraudulent activities, patents, copyright, and import and export laws.

### **5.1.3 Possible Solutions to acquire Missing Capabilities**

Based on their past experience in sales, both Michael and Kelvin are accomplished negotiators. They will be able to hone Jimmy's negotiating skills and help him make informed purchasing decisions for the company. Accounting services maybe purchased on a contract basis and managed by accounting software in the early stages operations. There is also the possibility of outsourcing accounting services, if operations grows to a large scale, but in the beginning contracted services and accounting software may suffice. The marketing plan for the company is low budget with the retail division based primary on technology forums and websites. The wholesale sector will target large companies and organizations using a more direct approach, through face-to-face interactions and phone calls, which incur minimal expenditures. Expenditures associated with marketing in the wholesale of promotional products will also include shopping samples to potential clients, which is generally minimal. Regarding the lack of legal counsel, Sgedra can retain the services of an established lawyer and hire a fulltime lawyer once the company gets off the ground.

## **5.2 Organization**

### **5.2.1 Present and Missing Capabilities**

The present capabilities of the organization match well with the requirement to pursue a successful venture. The current organization is flexible and adaptive, and capable of working in a business based on an Internet infrastructure. The management structure is adaptive and cross-functional, facilitating an environment capable of making

quick decisions and seizing opportunities. The infrastructure is mainly Internet-based and each member of the management team already possesses a laptop to keep connected and to use for presentations. There is free software like Dropbox, and inexpensive CRM systems like SalesForce to aid in the transfer and maintenance of information for the company. Alex has created a shopping cart application that the company can use and can install and configure the Dropbox application for sharing information. Paypal could be an alternative to an in-house shopping cart application because it will increase customers' confidence, as it is known and trusted transaction medium to use to purchase items online. Sgedra maybe able to increase the speed of fulfilling orders by adopting a standardize system or payment method that many of their manufacturers and suppliers use. For example, many suppliers in Asia use direct bank transfers and Western Union to transfer funds for orders placed through email.

Sgedra's organizational structure matches the requirements identified as necessary to start up an import business. The costs to acquire software for the company's information system will be nominal due to the free and low cost alternatives currently available.

## **5.3 Resources**

### **5.3.1 Present Capabilities**

Presently, Sgedra has \$20,000 in initial capital invested by the owners. The preliminary funds will be used to launch the company and sustain operations for the first year. Depending on accounts receivable, \$15,000 maybe sufficient for the company's

operating income for the initial year of operations. The company will have ample partitioned storage areas in garages and basements provided by the owners until outsourced storage facilities are warranted. Temporary storage facilities range from \$50 to \$100 per month but will not likely be necessary, as even volume purchases will not likely require a storage area greater than the currently available space.

### **5.3.2 Missing Capabilities**

The company requires exclusive North American rights to EagleTec products to protect the unique products and sustain the product differentiation strategy. The company will need to obtain exclusive rights for distribution in North America for new products sources but may face difficulty if they are unable to purchase in large enough volumes. If exclusive rights are not attained, Sgedra will only be able to sustain a competitive advantage as a first mover before competitors begin to supply similar products. Greater funds may be necessary for operating capital as receivables can vary over time. Unexpected expenditures incurred, for example for legal advice, will unfortunately dictate that the company may need a quick source of capital for unusual circumstances.

### **5.3.3 Possible solutions to attain Missing Capabilities**

Currently EagleTec does not have a North American distributor and are unknown to the European and North American market. Asia EagleTec is not widely known and it is likely they are looking to expand their market through distributors. Even if Sgedra is unable to attain exclusive distribution rights, they will be able to maintain an edge as a first mover and bring in new innovative products in volume to reduce average unit costs.

Depending on initial purchases and profit margins, exclusive distribution rights can be arranged as a percentage of sales or as a fixed cost each year. The company can seek loans and investors to increase liquidity if operating costs increase over time. The company may keep their earnings in liquid securities that can be used in case of emergencies.

## **5.4 Recommendation**

Based on the opportunities and threats and Sgedra's capabilities, the recommendation is to pursue the business venture in portable memory and promotional products. The capabilities of Sgedra, as a start up company, are sufficient to mitigate the threats and take advantage of the opportunities in the retail and wholesale market of flash memory. Sgedra's product differentiation strategy will capitalize on the growth stage of each industry. Barriers like distribution channel, and experience and learning effects can be mitigated by the management team. Admittedly, there are a few missing pieces, for example the lack of exclusive distribution rights and limited financial resources, that may lead to slower growth and a shorter period of sustained competitive advantage.

Nonetheless, the missing capabilities are not devastating enough to overshadow the company's ability to take advantage of the opportunity to gain a place in the industry.

The missing capabilities, like legal advice and accounting in management, can be contracted or outsourced, while the threats of substitutes are reduced through added value from product differentiation. The business venture to import unique products to compete in the portable flash memory and promotional product industry should be pursued as opportunities outweigh the threats. The growth potential of the two industries holds the



promise of a profitable enterprise for new entrants looking to displace incumbents and gain market share.

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